UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
LIMITED

DP/1991/BFC/L.2/Add.1
14 June 1991

ORIGINAL: ENGLISH

BUDGETARY AND FINANCE COMMITTEE
Thirty-eighth session
3-21 June 1991, New York
Item 3 (c) of the agenda of the Budgetary
and Finance Committee

# DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Addendum

Rapporteur: Ms. Edelana M. CUAYO (Philippines)

## CHAPTER III. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

### C. Audit reports

1. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it documents DP/1991/52 and Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1989, the reports of the external auditors thereon, the comments of the Administrator on the audit reports of the executing agencies; the report of the Administrator on the audit report of the United Nations Development Programme itself (DP/1991/48); the financial report and audited financial statements for the year ended 31 December 1989 (A/45/5/Add.1); and the report of the Advisory Committee on Administrative and Budgetary Questions (A/45/570 and Corr.1).

2. The Director, Division of Finance, made an introductory statement concerning the qualification of UNDP accounts. The main points are outlined below.

3. The 1989 UNDP accounts were qualified on two grounds:

(a) Lack of audited accounts for some of the major executing agencies;

(b) Lack of progress made in obtaining audited statements for programme expenditure executed by Governments.

4. The Director informed the Budgetary and Finance Committee that the auditors report on the 1989 audit of UNDP accounts removed the qualification with regard to the lack of a breakdown of cash counterpart expenditure by project. The Director further stated that the proposed move to the biennialization of UNDP audited financial statements would not solve the problem of the qualifications of the accounts since UNDP could not guarantee the timely submission of audited statements from executing agencies or Governments; nevertheless, every effort would be made to make progress in that area. He reviewed those comments which UNDP had been able to address successfully, including those regarding unliquidated obligations, the two-year budget cycle concept, personal responsibility and liability and the functional title system. He indicated that other comments were continuing to be addressed by UNDP and that the questions on the accounting delineation between programme, programme support and operating expenses and the charging of temporary assistance would be discussed in the debate on the budget.

Summary of the discussion of the Committee

5. The qualification of the accounts was regretted and members requested clarification of the reasons why executing agencies and Governments were unable to submit audit certificates on their accounts on a timely basis. Members also asked for an explanation of the problems experienced by agencies and Governments in that respect. Several members asked if training programmes were required to assist Governments and whether they could be provided by the UNDP field offices. One member asked what steps UNDP had taken to improve the situation.

6. One member requested information on the various instances of fraud and the steps taken to avoid future abuses. She also questioned the steps taken to protect staff members reporting instances of waste, fraud or abuse. While one member indicated the need to establish minimum levels for the acceptance of trust funds by the Administrator as well as their maximum duration, another reaffirmed that the expansion of trust funds should be encouraged provided that core resources were not affected.

7. UNDP was requested to advise the Budgetary and Finance Committee on the application of stricter guidelines on special service agreements and controls implemented regarding the hiring of consultants. Additional information was also requested on the abuses found in the recording of unliquidated obligations.

Response of the Administration

8. The Associate Administrator responded to the question regarding the training of government personnel, stating that the field offices did not have the staff required to provide the specialized training necessary to assist government auditors. The Assistant Administrator, Bureau for Finance and Administration, reported to the Budgetary and Finance Committee on the efforts undertaken in 1989 to improve the reporting and audit on nationally executed projects. He indicated that significant improvement had been realized

in 1990, in that as of 17 May 1990, 70.4 per cent of project expenditure in that year was supported by audit certificates. The question now to be addressed was whether that percentage was sufficient for the Board of Auditors to remove the qualification.

9. He reported on the steps taken by UNDP to respond to the questions on fraud and the implementation of General Assembly resolution 44/183 of 19 December 1989 regarding personal responsibility and liability. He further indicated that he was working closely with the Division of Personnel to ensure that staff members reporting an incidence of fraud, waste or abuse would be protected and that such action would not impact on an individual's career potential in the organization.

10. The Assistant Administrator reiterated that the Administrator did not have the authority to use criminal proceedings as a general deterrent. Such action was at the discretion of the Secretary-General.

11. The Assistant Administrator responded to the questions on unliquidated obligations by explaining that the item had been discussed in the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)) and that misunderstandings by the agencies had been clarified. Improved procedures on the subject would be incorporated in the closing instructions for 1991, the end of the biennium, when audited accounts from the agencies were required. He further reported on the action taken with respect to the review of special service agreements and its referral to CCAQ Personnel and General Administrative Questions (PER) and the International Civil Service Commission (ICSC) and announced the appointment within the Division of Personnel of a consultancy manager with responsibility for monitoring the employment of consultants.

12. In closing, the Assistant Administrator stated that while no generally accepted accounting practices existed for international organizations such as UNDP, its accounting practices were no less stringent or precise than those defined under a Generally Accepted Accounting Practice (GAAP). The study undertaken by the Panel of Auditors, which was fully supported by the Administrator, was intended to establish system-wide practices.

Comments of the Director of External Audit

13. The Director of External Audit provided information on different facets of the audit report, including the qualifications of the accounts and other items addressed by members. He confirmed that the timing of the completion of executing agency accounts made it difficult for executing agencies to submit audit certificates before completion of the UNDP audit so that the qualification would remain for some time. He reported to the Budgetary and Finance Committee on the need for and the status of the interim study undertaken by the Panel of External Auditors in connection with the development of general accounting standards within which financial statements could be prepared, as requested by the General Assembly in paragraph 5 of its resolution 45/235 of 21 December 1990. The Director also summarized the

situation regarding unliquidated obligations and the misunderstandings in that regard among the executing agencies.

Recommendation of the Committee

14. Following its consideration of the subject, the Budgetary and Finance Committee recommended that the Governing Council adopt the following draft decision:

Audit reports

The Governing Council,

Having considered the financial report and audited financial statements of the United Nations Development Programme for the year ended 31 December 1989, and the report of the Board of Auditors thereon, contained in General Assembly document A/45/5/Add.1, as well as the views of the Advisory Committee on Administrative and Budgetary Questions thereon, contained in documents A/45/570 and Corr.1,

Having also considered documents DP/1991/52 and Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1989, the reports of the external auditors thereon, the comments of the Administrator on the audit reports of the executing agencies, and the report of the Administrator on the audit report of the United Nations Development Programme itself (DP/1991/48) and the description of the actions taken in response to Governing Council decision 90/48 of 22 June 1990 and General Assembly resolution 45/235 of 21 December 1990,

Responding to General Assembly resolution 45/235,

Taking into account the views and comments of the members of the Governing Council on these matters, as well as the additional information provided orally by the Director of Finance, the Assistant Administrator, Bureau for Finance and Administration, the Associate Administrator and the Director of External Audit and his representative,

Noting with appreciation the Administrator's support for the interim study being undertaken by the Panel of Auditors in connection with the development of general accounting standards within which financial statements can be prepared,

1. Expresses appreciation for the valuable work performed by the Board of Auditors and for the breadth and scope of their audit report;

2. Notes with concern that the audit opinion of the Board of Auditors of the 1989 accounts of the United Nations Development Programme was qualified on several accounts;

3. Notes with satisfaction that the Administrator has taken, or is taking, the necessary steps to correct the situations or conditions that gave rise to the qualifications of the audit opinion, as required by General Assembly resolution 45/235;

4. Recognizes that the audit report of the United Nations Development Programme may remain qualified so long as audit confirmation of programme expenditure incurred by executing agencies has not been received by the Board of Auditors at the time the Board issues its opinion on the United Nations Development Programme accounts;

5. Requests the Administrator to urge organizations executing projects or programmes to submit audit confirmation of programme expenditure on a timely basis;

6. Notes with satisfaction the efforts made by Governments in their capacity as executing agencies to comply with the audit requirements of the United Nations Development Programme and requests the Administrator to assist Governments, within indicative planning figure resources, to strengthen their capacity to comply with the Programme's audit requirements for government execution of projects funded by the United Nations Development Programme;

7. Requests the Administrator to discuss with the Board of Auditors the level of programme expenditure executed by Governments acting as executing agencies and supported by audit certification, which would be sufficient to remove the qualification;

8. Requests the Board of Auditors to continue to monitor the study on the feasibility of implementing a two-year project budget cycle and report to the Governing Council in their audit report for 1990-1991;

9. Urges the Administrator to keep under review the controls established to deter fraud and abuse in the payment of staff entitlements and allowances;

10. Requests the Board of Auditors to continue to conduct management audits of core and non-core activities and programmes;

11. Requests the Administrator to ensure that development of procedures for the implementation of a programme approach to execution of activities funded by the United Nations Development Programme includes adequate controls to enable audit of such activities;

12. Urges the Administrator, in cooperation with the executing agencies, to report to the Governing Council, at its next session, on specific corrective action taken to implement the recommendations of their external auditors, which relate to activities funded by the United Nations Development Programme;

13. Welcomes the attendance of representatives of the Board of Auditors at the meetings of the Budgetary and Finance Committee and the comments provided by them.

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